

**Strengthening the Commitment to
American Workers, Firms, Farmers and Fishermen and Communities
Adversely Affected by International Trade and Investment**

Testimony by
Howard Rosen
Executive Director, Trade Adjustment Assistance Coalition
Before the
House Ways and Means Committee
June 14, 2007

In 1962, when the United States was running a trade surplus, imports were barely noticeable in the economy, and manufacturing employment was increasing, Congress made a commitment to assist American workers, firms and communities hurt by international trade, by establishing the Trade Adjustment Assistance (TAA) program. This commitment is based on an appreciation that despite their large benefits, widely distributed throughout the economy, international trade and investment can also be associated with severe economic dislocations. President Kennedy best enunciated this commitment, when he wrote,

Those injured by trade competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the federal government.... [T]here is an obligation to render assistance to those who suffer as a result of national trade policy.

Forty-five years later, as the trade deficit approaches 6 percent of GDP, imports as a percent of GDP are five times what they were in 1962 and manufacturing employment is falling, this commitment is more important than ever before.

The US economy is currently facing significant pressures due to an intensification of domestic and international competition. These pressures affect every aspect of the US economy – all industries, occupations and regions. No sector of the US economy is immune from the effects of globalization.

There is no “magic bullet” to deal with the pressures resulting from globalization. More worker training alone will not be sufficient to address the large adjustment burden placed on workers and their families. A comprehensive set of integrated efforts is necessary to help the economy adjust to the enormous pressures due to globalization. These efforts should not be hand-outs, but rather

targeted, yet flexible assistance aimed at raising productivity and enhancing US competitiveness.

The TAA for Workers, TAA for Firms and TAA for Farmers and Fishermen programs are part of this strategy. Although the impact of globalization on the US economy calls for strengthening these programs, sound economic policies are the most important prerequisite for responding to the pressures resulting from globalization. In that regard, TAA is a compliment to trade policy, not a substitute for it.

Why Targeted Assistance for Those Affected by Globalization?

There is an economic rationale for providing targeted assistance to workers who lose their jobs due to increased imports and outward shifts in international investment. In the past, workers employed in industries facing import-competition tended to be older, minorities and less educated than workers employed in non-trade-related industries. Although these differences have somewhat eroded over the years, workers who lose their jobs from import-competing industries continue to face greater difficulty in finding new jobs with the least amount of financial disruption. This is primarily due to the fact that it is highly unlikely that these workers will be able to return to their previous occupation or industry.

Assisting workers move from declining, inefficient industries to growing, highly efficient industries, although painful to workers and their families, can contribute to increasing national productivity and raising living standards. Efforts aimed at encouraging this adjustment are central to any effort at enhancing US competitiveness.

There is also an ethical rationale for assisting those workers adversely affected by increased competition due to liberalization of trade and investment. Recent studies suggest that the benefits related to trade liberalization on the US economy are large and widely distributed.¹ Although the costs associated with opening the economy to increased international competition are significant to those incurring them, relative to the benefits and the size of the economy, they tend to be smaller and more highly concentrated. TAA is one means of sharing some of the benefits of trade liberalization with those workers and communities paying a heavy price for that policy.

The high concentration of the adverse affects of trade and investment liberalization on workers, firms, farmers and fishermen and communities introduces political concerns. Making a commitment to address these distributional consequences may reduce opposition to adopting policies aimed at further liberalization of trade and investment. This rationale has taken on

¹ Bradford, Scott C., Paul L.E. Grieco and Gary Clyde Hufbauer, "The Payoff to America from Global Integration," in C. Fred Bergsten, ed. *The United States and the World Economy*, Washington: Institute for International Economic, January 2005.

increased importance in recent years, as opposition to trade liberalization has grown.

TAA for Workers

The TAA for Workers program is the largest of the 3 existing programs. Under the program, workers can currently receive income support, training, and job search and relocation assistance. A limited wage insurance program and the Health Coverage Tax Credit (HCTC) were added in 2002.

In order to receive assistance, workers must show that they lost their jobs due to any one of following 3 eligibility criteria:

- An increase in imports
- Laid off from an upstream or downstream producer
- A shift in production to another country

Each of these criteria must have “contributed importantly” to a firm’s decline in production and sales. Table 1 presents the distribution of certified petitions by reason. In contrast to estimates made during the Congressional debate over the 2002 reforms, the number of certified petitions related to shifts in production is much larger than the number of certified petitions for secondary workers.

Table 1
Distribution of Certified Petitions by Reason

	2002	2003	2004	2005	2006	2007
Number of all petitions submitted	2,796	3,585	3,215	2,594	2,488	1,086
Number of workers covered by all petitions submitted	336,833	304,126	210,153	155,712	168,871	93,903
Percent of petitions certified	59	53	56	60	58	63
Percent of certified petitions due to increased imports	n/a	47	55	55	53	46
Percent of certified petitions due to secondary workers	n/a	8	9	6	8	9
Percent of certified petitions due to shifts in production	n/a	30	36	39	39	44

Source: US Department of Labor

Although the TAA for Workers program has been the subject of some criticism over the years, the program has and continues to provide critical assistance to millions of workers and their families as they face probably the

most severe financial burden of their lifetime. More than 25 million workers have received assistance under the program since it was established in 1962.

The TAA for Workers program works; the problem is that it does not help all workers in need.

The TAA for Workers program has had a rocky history, including liberalization of eligibility criteria in 1974, cutbacks in assistance in 1981 and the establishment of a special program just for workers affected by trade with Canada and Mexico, i.e. the NAFTA-TAA for Workers program.² In 2002, Congress enacted the most expansive set of reforms in the TAA for Workers program since it was established. The reform, first introduced by Senators Baucus and Bingaman, included:

- The TAA for Workers program and the NAFTA-TAA for Workers program were merged. The eligibility criteria and the assistance package under both programs were harmonized and unified in one program.
- Eligibility criteria were expanded to include workers who lost their jobs from companies producing inputs for goods that face significant import competition, and workers who lost their jobs due to shifts in production to countries with bilateral free trade agreements with the United States and “where there has been or is likely to be an increase in imports....”³
- The HCTC was established. The credit provides a 65 percent advanceable, refundable tax credit to offset the cost of maintaining health insurance for up to two years.
- A limited wage insurance program, called the Alternative Trade Adjustment Assistance (ATAA) program, was established. Workers over 50 years old and earning less than \$50,000 a year may be eligible to receive half the difference between their old and new wages, subject to a cap of \$10,000, for up to two years. In order to qualify, workers must find a new full-time job and enroll in the ATAA program within 26 weeks of job loss. Workers enrolled in ATAA cannot receive other assistance under the TAA program.
- The total training appropriation cap was increased to \$220 million.
- Income support payments were extended by 26 weeks to enable workers to be enrolled in training and receive income maintenance for up to two years.
- Workers undertaking remedial education can postpone their entry into the TAA for Workers program for up to 6 months.

² See Rosen, Howard, “The More We Change the More It Stays the Same,” C. Fred Bergsten in the World Economy, Institute for International Economics, 2006 for a more detailed discussion of the history of the TAA for Workers program.

³ Public Law 107-210, Section 113(a).

- The amounts provided for job search assistance and relocation assistance were increased to keep up with inflation.

Table 2 provides a comparison of program participation data before and after the 2002 reforms. Despite a significant increase in imports and outward investment over this period, the number of petitions filed has not changed much since 2002. Recent studies by the Government Accountability Office (GAO) suggest that this may be due to a lack of public awareness of the program. On the other hand, there has been a significant increase in the share of eligible workers participating in the program. This may be a “mixed blessing,” as it might be a reflection of the increasing difficulties workers face in finding new jobs.

Table 2
TAA for Workers
Performance Data
1997 to 2005

Annual Averages	1997-2001	2003-2005
Number of petitions filed	na	2,693
Percent certified	67 percent (a)	64 percent
Take-up rate	19 percent (b)	43 percent
Workers receiving income support	34,800	62,444
Workers in training	31,200	46,103
Workers in ATAA	na	3,864 (c)
Workers receiving HCTC	na	22,000 (c)

Source: US Department of Labor, (a) 1994-1998; (b) 1996-2000; (c) total 2003-2006

ATAA and HCTC are two examples of how assistance under the TAA for Workers program has shifted from traditional income transfers to more targeted, cost effective assistance. Despite the benefits associated with these new forms of assistance, enrollment in ATAA and the HCTC are disappointingly low. A 2006 GAO study of 5 large plant closings found that less than half of those TAA eligible workers who visited one-stop career centers were even informed of the HCTC during their visits to one-stop career centers. A little over half of eligible workers were aware of the ATAA program.

Wage Insurance (ATAA)

Workers who lose their jobs due to import competition and shifts in production pay a heavy price in terms of short-term and long-term earnings losses. According to the Dislocated Worker Survey (DWS) only two-thirds of unemployed workers find a new job within 1 to 3 years after layoff. (See Table 3.)

Only approximately one-fourth of workers experience no earnings loss or an improvement in earnings after re-employment. More than 40 percent of workers experience earnings losses. Wage Insurance is designed to provide some assistance to these workers.

Table 3
Re-employment and Earnings Experience of Dislocated Workers

	Manufacturing	Non-Manufacturing	High-Import Competing
Average pre-layoff wage	\$396.88	\$368.95	\$402.97
Share reemployed	0.648	0.691	0.635
Average change in earnings	-0.121	-0.038	-0.132
Share with >30% earning loss	0.252	0.212	0.253
Share unemployed >26 weeks	0.221	0.127	0.24

Source: Displaced Worker Survey, Bureau of Labor Statistics, author's calculations based on data for 1979 to 1999. Based on Kletzer, Lori G. 2001. *Job Loss from Imports: Measuring the Costs*. Washington: Institute for International Economics.

Wage insurance is not a substitute for the traditional Unemployment Insurance (UI) program. The two programs serve two distinct populations, i.e. UI serves those workers seeking employment and wage insurance assists those workers who have found new jobs.

Current labor market conditions suggest that there is a high probability that workers will face the prospect of accepting a job that pays less than their previous job. Workers enrolled in ATAA unanimously report that financial pressures dictate that they return to work as soon as possible. ATAA helps cushion the potential losses workers face in taking anew job.

For example, the average weekly wage before layoff for workers displaced from high import-competing manufacturing industries was \$402.97 between 1979 and 2001. Those workers who found new jobs faced, on average, a 13 percent loss in earnings. Under the current wage insurance program, these workers would be eligible to receive an additional \$5,532 for the first 2 years after re-employment, an 8 percent increase in their new wage.

Despite its benefits, wage insurance is not a perfect solution to addressing the costs associated with unemployment. The 26-week deadline for eligibility and the inability to enroll in training while receiving wage insurance are two examples of shortcomings in the current program. One option to address these problems would be to remove the 26-week requirement and allow workers to enroll in training while receiving wage insurance. A more ambitious proposal would be to enable workers, with the approval of their one-stop career counselor, to design a

mix of income support, training and wage insurance over a 2-year period. The benefits of the program suggest that eligibility should also be expanded to those less than 50 years old.

Health Care Tax Credit

The Henry J. Kaiser Family Foundation reports that the average cost for health insurance for a family of 4 in 2006 was \$11,500.⁴ This equals 85 percent of the average amount of annual income support provided under the TAA for Workers program. For many workers, maintaining health insurance can be one of the largest, if not the largest expense during unemployment. As a result many workers forego health insurance. Unemployed workers and their families comprise one of the largest groups of uninsured people.

The HCTC provides workers a 65 percent advance-able, refundable tax credit to offset the cost of maintaining health insurance for up to two years. The Internal Revenue Service (IRS) reports that since 2003, approximately 22,000 workers have used the credit, or about 500 to 600 new enrollees per month.⁵ This constitutes only a small percent of eligible workers. According to a study of workers from 5 plant-closings, the GAO found that between 3 and 12 percent of eligible workers used the HCTC.⁶ Between 39 and 60 percent of workers claimed they were not aware of the credit.

Of those workers who did not use the credit, the GAO found that between 50 to 82 percent of workers were covered by other health insurance, i.e. from a spouse. Forty-seven to 79 percent of respondents claimed that they could not afford to maintain their health insurance, despite the credit. Fifteen to 33 percent of workers found the credit too complicated.

In contrast to the Department of Labor (DOL), the IRS has implemented an outreach effort to inform each worker directly about the HCTC. Despite this effort, it appears that additional efforts are necessary to ensure that all workers are aware of the credit. Congress should consider raising the amount of the credit in order to make maintaining health insurance more affordable to unemployed workers and their families. Technical problems relating to waiting periods and health insurance options for workers not covered by their previous employer's health insurance need to also be addressed.

⁴ The Henry J. Kaiser Family Foundation, Employee Health Benefits: 2006 Annual Survey. September 26, 2006.

⁵ The number of people covered by the HCTC rises to 37,000 when family members of TAA eligible workers are included.

⁶ US Government Accountability Office (GAO) 2006. *Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, but Better Outreach Needed on New Benefits*. GAO-06-43. Washington: Government Accountability Office.

The Next Round of Reforms

For the most part, the 2002 reforms “fought the last battle” and did not fully address more recent economic developments, such as the phenomenon of international outsourcing of services. In addition, there are several technical problems that were discovered while implementing the 2002 reforms that need to be addressed. The following is a list of the major issues that in my view still need to be addressed:⁷

- *Service Workers.* The service sector is increasingly under pressure from outward shifts in investment and international outsourcing.⁸ Based on its current interpretation of the statute, DOL denies assistance to workers who lose their jobs from the service sector. DOL argues that workers in the service sector do not produce items that are “similar or like an imported *good* (emphasis added).” Although the law does not specifically restrict TAA eligibility to workers employed in manufacturing industries per se, over the years DOL’s interpretation of the law has de facto resulted in such a restriction. A recent GAO study finds that denying assistance to service sector workers currently account for almost half of petition denials.⁹

In response to several recent appeals brought before the Court of International Trade, DOL partially reversed its position and announced that software workers who met the general eligibility criteria could receive assistance under TAA.

The statute governing the TAA for Workers program needs to be updated to cover workers who lose their jobs from service industries. A simple change in legislative language alone will not be sufficient to achieve this goal, since data do not currently exist to measure the importation of services. A new methodology for determining trade-impact may need to be developed to expand eligibility to cover workers who lose their jobs from service industries.

- *Industry Certification.* Petitions for TAA eligibility are currently filed according to firm-related layoffs, meaning that multiple petitions can be submitted by different groups of workers employed in the same firm as well as in the same industry. In an effort to streamline the petition process

⁷ See Kletzer, Lori G., and Howard Rosen. 2005. Easing the Adjustment Burden on US Workers. In *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, ed. C. Fred Bergsten and the Institute for International Economics. Washington: Institute for International Economics for additional recommendations.

⁸ Alan Blinder recently estimated that as many as 42 to 56 million jobs, or 30 to 40 percent of total US employment, could be under pressure from possible off shoring. This estimate includes 14 million manufacturing workers and 28 to 42 non-manufacturing workers, primarily workers employed in the service sector. See Blinder, Alan, “How Many U.S. Jobs Might Be Offshorable?” Draft March 23, 2007.

⁹ GAO, 2007. *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States’ Ability to Provide Benefits and Services*. GAO-07-701. Washington: Government Accountability Office.

and remove arbitrary discrimination between workers from the same firm and industry receiving assistance, industry-wide certification should be added to the existing firm-related layoff certification.

For example, if the apparel industry was found to experience a decline in employment related to an increase in imports or outward shift in investment, then any worker laid off from the industry, regardless of cause, would be immediately eligible for TAA without needing to go through the bureaucratic petition process.

In discussing this idea, Senator Baucus recently commented that all workers laid off from a specific industry should be covered by a single certification, the same way that all producers are covered by a single granting of import relief by the International Trade Commission.¹⁰

Given data limitations concerning the service sector, industry certification would facilitate eligibility determinations for workers displaced from service industries.

- *Training Appropriations.* Allocating training funds to states to meet the needs of workers has been a challenge to DOL under successive administrations. GAO recently reported that on average, states spent or obligated 62 percent of their training allocations in 2006, with a large range among the states.¹¹ The GAO found that 13 states spent less than 1 percent of their training allocation while 9 states spent more than 95 percent of their training funds in 2006.

Currently, DOL allocates 75 percent of TAA training funds according to a formula based on states' spending over the previous 2½ years. Thus states that experience large lay-offs in a subsequent year may receive an inadequate amount of training funds to meet the needs are all TAA eligible workers. Conversely, states that experience large lay-offs in previous years may receive more training funds than needed in a subsequent year. GAO also reported that DOL allocates a significant amount of funds at the end of the fiscal year, making it difficult for states to utilize those funds. Since existing legislation does not address this issue, DOL has complete discretion in setting the method by which training funds are allocated to the states.

The allocation of training funds desperately needs improvement.

Currently, DOL makes 2 disbursements – one at the beginning of the year and another at the end of the year. One recommendation would be to increase the number of disbursements, spread out more evenly throughout the year, based on shorter look-back periods, i.e. 6 months.

Currently the law sets a global cap \$220 million for training expenditures under the TAA for Workers program. The cap is not adjusted for inflation, changes in the economy or major plant closings. At a minimum, the

¹⁰ TAA Coalition meeting, April 13, 2007.

¹¹ GAO (2007)

training cap needs to be raised on a regular basis. Ways to better link the training appropriation to the needs of TAA eligible workers should also be explored.

- *Health Coverage Tax Credit (HCTC).* GAO's survey of workers involved in 5 layoffs found that almost 70 percent of those workers without alternative health insurance reported that they could not afford to maintain their previous health insurance, despite the HCTC.¹² In a subsequent report, GAO estimated that even with the 65 percent tax credit, the cost of maintaining health insurance in 4 sample states was equal to approximately 25 percent of a worker's average monthly UI payment. Although the HCTC appears to have been an important addition to the package of assistance provided workers, the amount of the credit needs to be increased in order to enable more workers to use the credit.

Currently, workers must receive income maintenance (or participate in ATAA), which means that they must be enrolled in training, in order to be eligible to receive the HCTC. This restriction severely limits the number of displaced workers who can receive the credit. GAO found that this requirement has forced workers to both enroll in training and receive income maintenance payments or to apply for a training waiver.¹³ Some argue that requiring a worker to undertake training promotes "real adjustment," while others contend that it results in workers getting expensive assistance that they may not need or want. One proposal would be to provide the HCTC to all TAA-certified workers for up to two years or until the worker finds a new job, regardless of enrollment in training.

Other technical issues concerning the HCTC, such as the waiting period before enrollment, require immediate attention.

- *Wage Insurance (ATAA).* The current program is restricted to workers over the age of 50. Although there is some evidence that older workers may have a harder time finding a new job, ATAA can potentially benefit all workers. It is a cost-effective means of cushioning the costs associated with taking a new job. The age requirement for ATAA should be lowered so that all workers are eligible.
- *Self-employed.* Under the current program, workers are discouraged from pursuing self-employment. One option would be to continue providing income support and training to workers starting their own businesses.
- *Outreach.* GAO has consistently found that many workers are unaware of the assistance provided by the TAA for which they are eligible.¹⁴ This may help explain why program take-up rates are so low. DOL's outreach

¹² GAO (2006)

¹³ GAO (2006). Some states have issued training waivers in order for more workers to receive the HCTC.

¹⁴ GAO (2006)

efforts seem inadequate. More resources need to be devoted to informing workers about TAA and other forms of assistance for dislocated workers.

- *Data Reporting.* The Department of Labor under successive administrations has made it difficult to obtain data related to TAA, despite the fact that these data, which were widely available in prior years, do not appear to include any sensitive information. Participation data are crucial to determining how well TAA is working and which aspects of the program need to be improved, eliminated, or expanded. Public access to TAA program data is therefore critical to monitoring and evaluating the program.

The TAA for Workers program is currently financed through general revenues, without any dedicated revenue offset.¹⁵ One proposal would be to dedicate custom duties to finance a further expansion of the program. Custom duties equaled approximately \$20 billion in FY 2003, and they are expected to rise to \$25 billion over the next few years.¹⁶ Since funds collected from custom duties are considered general revenue, diverting them to finance these proposals would contribute to the federal budget deficit. A more limited proposal would be to dedicate only the *increase* in custom duties over the next few years to offset the costs associated with expanding adjustment programs. This would also exacerbate the fiscal deficit and might not be sufficient to cover the total costs of the more ambitious proposals outlined above. Nonetheless, it might be a good way to jump-start the reform process.¹⁷

TAA for Firms

Congress also established the TAA for Firms program in 1962 to help American firm respond to the pressures resulting from increased import-competition and *avoid* possible cutbacks and layoffs. Initially the program provided technical assistance, loans and loan guarantees. Congress eliminated the loans and loan guarantees in 1986. Technical assistance is currently provided to firms by 11 Trade Adjustment Assistance Centers (TAAC) located around the country. Eligibility criteria mirror, although are not exactly the same as those for the TAA for Worker program.

The TAA for Firms program has historically been quite small. Between 2001 and 2006, the program assisted approximately 150 firms a year covered some 16,000 workers. Average spending over the last 9 years has been \$11 million per year.

¹⁵ Section 245 of the Trade Act of 1974 called on the Department of Treasury to establish a trust fund, financed by all custom duties, from which to finance TAA, but this trust fund has not been established.

¹⁶ Multilateral agreements are likely to reduce tariff rates over the coming years. On the other hand, increases in the volume of imports could increase the amount of tariff revenues collected.

¹⁷ It should be noted that there is long-standing opposition among economists to dedicated funding schemes.

A recent evaluation by the Urban Institute found that firms that participated in the TAA for Firms program had a higher survival rate (84 percent) than eligible firms that did not participate in the program (70 percent), 5 years after certification. According to Gary Kuhar, director of the Northwest Trade Adjustment Assistance Center (NWTAAAC), since 1984, there has been an 80 percent survival rate for firms assisted in his region. This rate may be conservative, since it does not include firms that have been sold to other companies or operate under a new name. According to their internal cost-benefit analysis, this survival rate translates into a returned of \$234 for every federal dollar managed by the NWTAAAC.

Congress should explore ways to expand the program, while maintaining its effectiveness. Existing eligibility criteria should be liberalized to meet current economic conditions. In addition, program funding and the capacity of the TAAACs will need to be expanded if TAA eligibility criteria were expanded to include the service sector. Congress might also explore ways to integrate the TAA for Workers and TAA for Firms programs by automatically making all workers employed by firms participating in the TAA for Firms program eligible for the TAA for Workers program, and visa versa.

TAA for Farmers and Fishermen

Congress established the TAA for Farmers and Fishermen program as part of the 2002 reforms, based on legislation introduced by Senators Conrad and Grassley in the 106th Congress. Farmers and fishermen whose crops face a precipitous drop in their international price can receive minimal cash payments, if they participate in technical assistance programs. Financial assistance is calculated as half of the difference between the most recent year's crop price and 80 percent of that price over the previous 5 years, subject to a limit of \$10,000 per year.

Between 2004 and 2006 nine crops were eligible for assistance – avocados, catfish, concord grapes, fresh potatoes, lychees, olives, salmon, shrimp and wild blueberries. The program's experience over this period suggests that cash payments have been very small, making the program somewhat unattractive to farmers and fishermen. On the other hand, there is evidence that the technical assistance has been useful in helping farmers and fishermen diversify their crops and/or improve the yield and sales of their existing crops. Enrollment in technical assistance seminars has been encouraging, although it is too early to measure their effectiveness.

An evaluation by the Western Center for Risk Management Education found that 40 percent of participants undertook changes to adjust to import competition as a result of the program.¹⁸

The program is handicapped by two related problems. First, eligibility criteria are too restrictive, thereby denying assistance to farmers and fishermen

¹⁸ Annual spending on the CAP is estimated to be \$45 billion.

in need of assistance. Second, due to the formula used, the amount of income assistance provided is very small, thereby making the program, and any subsequent adjustment to import competition, financially unattractive.

Annual spending on the TAA for Farmers and Fishermen program has been uneven, averaging \$10 million annually over the last 5 years. Spending reached a peak of \$21.3 million in FY 2005, before falling to \$4.7 million in FY 2006 and less than \$1 million in FY 2007.¹⁹

The European Union devotes 10 percent of the amount it spends on the Common Agriculture Program (CAP) on positive adjustment in the farming and fishing. FY 2006 spending on the Farmer and Fishermen program equaled a less than one-tenth of 1 percent of total US farm income support.²⁰ Expanding the TAA for Farmers and Fishermen program, in a responsible and effective way, could contribute to reducing farm income support, which places pressure on the federal budget and continues to stand in the way of multilateral trade negotiations.

TAA for Communities

The impact of globalization on the US economy is not limited to workers, farmers and fishermen. All of these people are located within communities, which also experience the consequences of massive lay offs and earnings losses. Workers who lose their jobs cannot afford to purchase non-essential goods or eat in restaurants, thereby causing the effects of a plant closing to ripple across a community. Plant closings also result in eroding a community's tax base, making it more difficult for the community to provide important functions and attract new investment.

In addressing any job loss, the primary objective should be to get people back to work, as soon as possible, with the least amount of financial loss. The TAA for Workers program only takes a small step toward helping workers meet that objective. The 2002 reforms began to transform the TAA for Workers program from one focusing almost exclusively on income support and training to one that aims toward re-employment. The most important ingredient of any re-employment program is the availability of jobs, preferably high paying jobs.

Several members of Congress have recently called for a TAA for Communities program.²¹ This proposal is based in part on a growing awareness that the effectiveness of any training program is limited by the availability of jobs that utilize the skills acquired in that training. Under these circumstances, job creation requires shifting the composition of existing investment and attracting new investment.

¹⁹ Foreign Agriculture Service, US Department of Agriculture.

²⁰ Total US farm income support amounted to \$16 billion in FY 2006.

²¹ Senator Bingaman first introduced this proposal in 2001.

The Economic Adjustment program at the Department of Defense (DOD) has been successful in helping communities in the aftermath of a military base closing. Under the program, the Department of Defense provides intensive technical assistance and funds to help communities prepare strategic plans for economic development. A limited experiment of, borrowing from DOD's base closing program was tried in New Mexico in 1998.²²

One proposal would be to temporarily assign a technical advisor to those trade-impacted communities willing to undertake certain activities. The advisor could help the community leaders design a strategic plan for economic development, which could be an important contributor to identifying, applying for and eventually receiving federal assistance. This program need not be expensive. At a minimum, the program can serve to help communities identify existing public and private assistance and coordinate that assistance.

International Comparisons

As mentioned above, programs aimed at enhancing economic adjustment to the current realities associated with globalization should be part of any nation's competitiveness strategy.

Currently, our major trading competitors are devoting much more resources to labor market adjustment programs than the United States (see Table 3). Relative to six other major industrialized countries, the United States spends the least on active labor-market adjustment programs, even after taking into account each country's unemployment rate. France and Germany each devote about five times more to their active labor-market programs than does the United States.

Much is currently being made of the Danish "Flexicurity" system. There is no magic to this program. In addition to differences in hiring and firing policies, the OECD estimates that Denmark spends 8 times more in public funds, as a share of GDP, to labor market programs than the United States.²³ The Danes spend 10 times more public funds, as a share of GDP, to training and 5 times more, as a share of GDP, to income support than the United States.

²² Rosen, Howard. 2001. A New Approach to Assist Trade-Affected Workers and Their Communities: The Roswell Experiment. *Journal of Law and Border Studies* 1:1.

²³ Danish labor laws are more protective of workers than US labor laws.

Table 3
Spending on Active Labor-Market Programs

Country	As a percentage of GDP	Ratio of spending as a percentage of GDP to the unemployment rate	As a percentage of total spending on all labor-market programs
Canada	0.41	0.06	36.4
France	1.32	0.14	44.4
Germany	1.21	0.16	38.6
Japan	0.28	0.06	34.2
United Kingdom	0.37	0.07	40.0
United States	0.15	0.03	32.9

Source: OECD, Employment Outlook 2003, data for 2000-2001.

Immediate Steps

The 5-year authorization of the entire compliment of TAA programs – TAA for Workers, TAA for Firms and TAA for Farmers and Fishermen – is scheduled to expire at the end of September 2007. Based on past experience, any lapse or temporary extension of the program's authorization could cause serious disruption to those workers, firms, farmers and fishermen participating in the program. Without the ability to disperse federal funds, the pressure to maintain assistance could fall upon the states. Most states do not have the resources or legal ability to continue the assistance under the various programs.

In previous years income support was terminated, causing considerable financial distress on workers and their families. Funding for training programs was also cut off, forcing workers to forego training. It is crucial that Congress move to re-authorization the compliment of TAA programs, for at least another 5 years, without any lapse.

Conclusion

All public opinion surveys find that Americans are willing to pursue trade liberalization IF the government assists those workers, firms and communities, adversely affected by that liberalization. Despite significant changes in the US economy over the last 45 years, including an increase in import penetration and a decline in manufacturing employment, efforts to assist workers adversely affected by increases in imports and shifts in production have remained modest at best. Efforts to reform and expand the program in 2002 were extremely useful in breathing new life into that commitment. Implementation of those reforms has been uneven at best. More effort must be undertaken to insure that all workers, firms, farmers and fishermen receive the assistance they so desperately need.

Several pieces of legislation have already been introduced and several others are likely to be introduced to continue the efforts begun in 2002 to reform and expand TAA. These proposals include extending eligibility criteria to cover

workers who lose their jobs from service industries, establishing a process for certifying entire industries, increasing the budget cap on training expenditures, and expanding the HCTC and wage insurance programs. Congress should seriously consider enacting these proposals.

It would seem that the increased importance of international trade to the US economy and the growing concern over economic dislocations would make assistance to workers, firms and communities facing these pressures more of a pressing issue in 2006 than it was in 1962. Yet despite public support for this kind of assistance and rhetoric on the need to increase worker training, expanding labor market adjustment programs remains a low priority in the United States. This will need to change if the United States wants to pursue a competitiveness strategy that results in increasing productivity and raising living standards.